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# CRITICAL PROBLEMS IN ECONOMIC STATISTICS

## Reports on selected critical problems in economic statistics

## Note by the Secretary-General

## INTRODUCTION

1. At its eighteenth session (New York, 16-18 April 1996), the Statistical Commission's Working Group on International Statistical Programmes and Coordination requested the Statistics Division of the United Nations to work with the World Bank, in consultation with countries, to develop suitable terms of reference for a comprehensive review of the International Comparison Programme (ICP) (E/CN.3/1997/19, para. 24); the terms of reference requested are contained in the annex. They have been developed by the United Nations Statistics Division, in collaboration with the World Bank, the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD) and the Statistical Office of the European Community (Eurostat), after consultation with experts of two member States, Austria and the United States of America.

2. For the information of the members of the Statistical Commission, Eurostat has recently conducted an in-depth evaluation of the African regional ICP comparison, the results of which are available in a report issued by Eurostat. In addition, OECD has informed the other ICP coordinating agencies that it has begun a review of the joint Eurostat-OECD purchasing power parity programme. The terms of reference being used by OECD are substantially the same as the

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terms of reference for the evaluation of the global ICP that are contained in the annex. OECD plans to engage a consultant to carry out its review in 1997.

3. The ICP coordinating agencies - the United Nations Statistics Division, the World Bank, IMF, OECD and Eurostat - suggest that, if the Statistical Commission wishes to conduct a review of the global ICP programme, it consider doing so after the completion of the above-mentioned review by OECD of its regional purchasing power parity programme. In this way, the review would be extended to encompass the entire global ICP. It is suggested that (a) the Chairman of the Statistical Commission appoint a steering committee to supervise the work of the consultant(s) to be engaged to carry out its review, and (b) the consultant(s) be selected by that steering committee from a short list of candidates, whose names could be proposed by the ICP coordinating agencies listed above and could include the consultant working on the OECD review. The list of prospective consultants could be submitted to the Chairman by the United Nations Statistics Division if the Commission decides to undertake the evaluation exercise of the global ICP. The evaluation could begin in the second half of 1997, and its full report could be submitted to the Working Group at its twentieth session, in 1998.

4. Implementation of the evaluation of the global ICP will be contingent on securing adequate funds.

## POINTS FOR DISCUSSION

5. The Statistical Commission is requested to comment on the proposed terms of reference for the evaluation of the global ICP, and may wish to consider whether and how the evaluation should proceed. In particular, the Commission is asked to provide guidance on the following specific issues:

(a) Does the Commission agree with the proposed terms of reference?

(b) Does the Commission agree with the strategy outlined above for conducting the evaluation?

Annex

# TERMS OF REFERENCE FOR THE EVALUATION OF THE GLOBAL INTERNATIONAL COMPARISON PROGRAMME (ICP)

## General direction of the evaluation process

1. Carry out a comprehensive analysis of the conceptual and technical problems associated with the ICP programme, as well as of the adequacy of its overall organizational framework. Develop an outline for a strategy of improvement, and propose practical steps for its gradual implementation. Assess the resource implications of the suggested improvement measures. Summarize and present the findings in a report.

## Specific issues to be addressed

2. Establish objective criteria against which the validity of ICP results can be measured. Based on those criteria, provide a critical evaluation of the accuracy and quality of purchasing power parity (PPP) data.

3. Conduct a general review of the analytical uses to which ICP results are commonly put. Examine the adequacy of the available ICP estimates for such analytical purposes, in particular the practice of using PPPs for aggregation across countries to obtain group, regional and world growth rates. Specify areas for which PPPs provide a meaningful analytical tool. Identify the analytical uses that could be served by mobilizing to maximum effect the price and expenditure information and subsets of that corpus of data that are currently provided by countries participating in regional and global PPP exercises. List the shortcomings and limitations that need to be overcome to enhance the analytical capability of ICP results, and assess the feasibility of bringing about improvements.

4. Examine the possibility of strengthening the technical underpinnings of the programme. Evaluate the appropriateness of the applied methods for comparing distant countries. Identify unresolved technical issues, and determine problem areas on which further research should focus to build confidence in the numbers. Specify the expected benefits in terms of generating more robust results by addressing issues, such as the adequacy of the sampling design, the choice of aggregation methods, the treatment of quality differences and technologically advanced products, the balance between exercising expert judgement and applying scientific statistical methods, and other issues of concern.

5. Explore options to make the programme less resource intensive, without running the risk of information loss and deterioration of quality. Propose the introduction of approaches and practical, operational changes providing countries with direct benefits from participation and easing their burden. Demonstrate the usefulness of ICP results at the national and international levels. Look for ways to maximize the use of national consumer price index information to satisfy ICP data requirements in spite of the differences in the measurement objectives of the two programmes.

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